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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE

STATE OF CALIFORNIA

Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Annual Local and Flexible Procurement Obligations for the 2019 and 2020 Compliance Years.	Rulemaking 17-09-020 (Filed September 28, 2017)

COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E), PACIFIC GAS AND ELECTRIC COMPANY (U 39-E) AND SAN DIEGO GAS AND ELECTRIC COMPANY (U 902-E) ON THE ORDER INSTITUTING RULEMAKING TO OVERSEE THE RESOURCE ADEQUACY PROGRAM

JANET S. COMBS
TRISTAN REYES CLOSE

Attorneys for
SOUTHERN CALIFORNIA EDISON COMPANY
2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770
Telephone: (626) 302-2883
Facsimile: (626) 302-3998
E-mail: Tristan.ReyesClose@sce.com

MARK R. HUFFMAN
MATTHEW A. FOGELSON

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY
77 Beale Street, B30A
San Francisco, California 94105
Telephone: (415) 973-7475
Facsimile: (415) 973-5520
E-mail: MAFv@pge.com

AIMEE M. SMITH

Attorney for
SAN DIEGO GAS & ELECTRIC COMPANY
8330 Century Park Court, CP32
San Diego, California 92123
Telephone: (858) 654-1644
Facsimile: (858) 654-1586
E-mail: AMSmith@semprautilities.com

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Table of Contents

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In accordance with Rule 6.2 of the California Public Utilities Commission's ("CPUC" or "Commission") Rules of Practice and Procedure, Southern California Edison Company ("SCE"), Pacific Gas and Electric Company ("PG&E") and San Diego Gas & Electric Company ("SDG&E") (together the "joint Investor-Owned Utilities ("IOUs")") hereby submit these comments in response to the Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Annual Local and Flexible Procurement Obligations for the 2019 and 2020 Compliance Years ("OIR") issued on October 4, 2017.[1]

[1] Pursuant to Rule 1.8(d), counsel for PG&E and SDG&E have given counsel for SCE authorization to file these comments on their behalf.

I.

THE JOINT INVESTOR-OWNED UTILITIES RECOMMEND THE DEVELOPMENT OF A NEW RESOURCE ADEQUACY PARADIGM TO FURTHER THE STATE'S CLEAN ENERGY GOALS

The joint IOUs support California's climate change goals which include significant reductions of carbon dioxide ("CO2") emissions from the electric utility sector. To achieve these goals, there will need to be a planned retirement of fossil fueled resources targeting those that are least efficient and emit the most CO2. The current Resource Adequacy ("RA") process requires resources that meet minimum requirements for peak load, location, or flexibility. As a result, the current RA process may retain older, less efficient plants because they can bid lower costs than newer, more efficient plants, notwithstanding that the newer, more efficient plans may be more valuable to future grid operations.[2]

As California moves toward its emissions goals with increasing deliveries of renewable energy, the short-term energy markets have, as a result, produced lower energy revenues for resources.[3] This phenomena along with the decreased needs for RA from thermal resources as more capacity becomes available from renewable and zero emitting resources has placed financial pressure on thermal resources that provide for reliability as we transition toward a zero emissions electricity environment. Those financial pressures are causing the contemplation of, and in some cases, actual resource retirements.[4] While retirement of thermal resources should be expected and is necessary to meet the state's emissions goals, it is important that such

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2 Older, less efficient plants can bid lower costs because much of their capital costs have already been recovered.

3 This is primarily driven by the increased output from wind and solar resources that have marginal costs at or near zero.

4 Calpine has indicated to the California Independent System Operator that they will consider retirement of five of their resources due to the lack of revenues to continue the operation of such resources. See http://www.caiso.com/Documents/CalpineLetter_CAISO_MetcalfEnergyCenterRetirementAssessment.PDF and http://www.caiso.com/Documents/DecisiononRequestforReliabilityMust-RunDesignations-Attachment-Mar2017.pdf.

retirements occur in an orderly manner. This orderly manner must consider reliability and the attributes of those emitting resources[5] that are retained to meet reliability as the transition to a zero-emitting fleet occurs. The recent increase in proposed reliability must-run ("RMR") contracts for gas-fired generators demonstrates the structure of the current RA program is failing to secure the operation of resources the California Independent System Operator ("CAISO") deems necessary for reliability during this transition to a cleaner resource fleet.

For these reasons, the joint IOUs believe it is appropriate to begin discussions in this proceeding on the future of RA in which the CAISO market structure, the RA design, and the state's policy objectives can be considered simultaneously to arrive at an appropriate outcome. This is a significant undertaking and will take time to accomplish. As such, the joint IOUs recommend the CPUC pursue a separate track dedicated to this issue as contemplated in the OIR. The joint IOUs believe it is imperative that this separate track involve not only the CPUC jurisdictional entities, but the CAISO as well since it is only with coordination of the RA framework and the wholesale market design that an effective and efficient outcome can be obtained. The re-examination of RA discussed above is too extensive to realistically address in the now-relatively-standard annual cycle. It is recommended that a separate, 18-month track be created, with interim target dates for the presentation of specific proposals, and if necessary, prepared testimony and hearings, with a target decision date of June of 2019.

Depending on the scope of the changes that are ultimately adopted, it may be that implementation of new RA requirements will occur over a period of time in concert with necessary wholesale market enhancements needed with the CAISO's market operations.

To begin the discussion on what a schedule for this proposed separate track might look like, the joint IOUs provide the following straw proposal:

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5 Examples of attributes may include the ability to start multiple times per day in order to prevent operation at Pmin which would unnecessarily increase emissions, heat rates of the resource to retain more efficient resources, the impact of such resources on disadvantaged communities, etc.

Pre-testimony workshop on RA needs	Mid-April 2018
Proposals submitted, in testimony form	Late-June 2018
Workshops on proposals	Mid-July 2018
Responsive testimony	Mid-September 2018
Hearings (if necessary)	Mid-October 2018
Opening briefs	Mid-December 2018
Reply briefs	Mid-January 2019
Proposed decision	Late-May 2019
Commission decision	Late-June 2019

If hearings turn out not to be necessary, then the briefing schedule can be accelerated, and possibly the target decision date moved forward.

The OIR identifies three preliminary scoping issues: (1) Local and Flexible Procurement Obligations; (2) Changes to the RA Program; and (3) Refinements of the RA Program Elements.[6] Since the Joint IOUs believe that the focus of this proceeding should be on changes to the RA program, they recommend that the consideration of refinements to the existing RA program elements be limited in quantity and scope as CPUC personnel and interested parties' resources are more efficiently utilized considering long-term changes needed to the RA framework.

II.

CONCLUSION

For the reasons stated above, the Joint IOUs support a dedicated track of the RA OIR to investigate, develop, and implement as necessary potentially significant changes to the RA Program that would:

- Fulfill the State's policy goals;
- Provide for an acceptable level of reliability;

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[6] OIR at 3-4.

- Mitigate market power concerns in capacity procurement and the wholesale energy market;
- Allocate costs appropriately;
- Ensure affordable costs for customers;
- Simplify the procurement and market operations as much as practical;
- Operate efficiently under an increasing number of LSEs; and
- Operate effectively with Distributed Energy Resources and integrate with Distribution System Operations.

The Joint IOUs look forward to engaging in this dialogue and to continue the reliable operation of the grid as the carbon impact of that grid is reduced.

Respectfully submitted on behalf of
Southern California Edison Company,
Pacific Gas and Electric Company, and
San Diego Gas & Electric Company,

JANET S. COMBS
TRISTAN REYES CLOSE

/s/ Tristan Reyes Close
By: Tristan Reyes Close

Attorneys for
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770
Telephone: (626) 302-2883
Facsimile: (626) 302-3998
E-mail: Tristan.ReyesClose@sce.com

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